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S E C R E T ROME 003977

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STATE FOR EUR/WE, EUR/PRA, NP/ECNP, INR/SPM, NEA/NGA,  
PM/RSAT

E.O. 12958: DECL: 09/02/2013

TAGS: [PARM](#) [PREL](#) [PGOV](#) [ETC](#) [IT](#) [IR](#) [EXPORT](#) [CONTROLS](#)

SUBJECT: STOPPING ITALIAN FAST BOAT TRANSFERS TO IRAN

REF: A. ROME 3613

[1](#)B. SECSTATE 230222

[1](#)C. ROME 3386 AND PREVIOUS

Classified By: Economic Minister-Counselor Scott Kilner for Reasons 1.5  
(b), (c) and (d)

[1](#)1. (S) Summary. Italian fast boat manufacturer FB Design has given the GOI new assurances that it will not export more fast boats or boat molds to Iran as long as the security situation in the Persian Gulf remains volatile. MFA export control coordinator de Mohr told us this means the hold is indefinite. FB Design claims that its continuing contacts with Iranian entities are necessary to keep the company from being declared in breach of contract. The company further reports that its existing contract provides for the delivery of four more boats to Iran, two of which are partially built, while manufacture of the other two boats has yet to be started. De Mohr maintained that the "catch-all" provision of Italian export control law (and the related "catch-more" provision) does not give the GOI the ability to formally impose a permanent halt on this export. Nevertheless, he stated firmly that the GOI's informal persuasion has been and will continue to be effective. Separately, DCM also raised the fast boats issue with MFA Secretary General Baldocchi, who promised to convey our message to FM Frattini. End summary.

[1](#)2. (S) Following up on our discussion with MFA Deputy DG for Economic Affairs Leggeri (ref A), Ecmin and econoff exchanged views on ref B points in further detail with MFA Nonproliferation Coordinator Ugo de Mohr on August 29. The two-hour session, which commenced with de Mohr reading through the points carefully, focused on the latest information de Mohr had received from the Italian firm FB Design regarding the status of its contracts to sell fast boats to Iran, as well as on the legal means available to Italy to formally impede such exports. Ecmin initiated discussion by stressing the persuasive nature of information we had seen recently that indicated the company continues to do business with Iranian entities. The U.S. believes that stopping these fast boat exports remains of critical security concern, given the large U.S. military presence in and near the Persian Gulf.

GOI Contact with FB Design  
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[1](#)3. (S) De Mohr told us that FB Design recently (since ref C discussion) informed him that the four fast boats originally intended for delivery to Iran in September 2003 remained uncompleted, with construction of two of the four boats not having even begun yet. De Mohr said the firm, in response to GOI pressure, has agreed to continue to suspend delivery of any boats, when/if they are completed, as long as the security situation in the Persian Gulf remains precarious. De Mohr characterized this as an indefinite hold. De Mohr has asked for, and expects to receive, written assurances from FB Design that it will maintain this suspension. The company also assured him that no more boat molds would be delivered to Iran. De Mohr added that the company has told him that it has no intention of signing any future contracts with Iran.

[1](#)4. (S) According to de Mohr, FB Design is in a legal quandary due to its decision to comply with the GOI's informal request to suspend further boat exports. The company has a legally valid existing contract with Iranian entities, and, according to de Mohr, maintains contact with those entities in order to forestall Iranian efforts to force the company to comply with its contract or declare a breach of contract. The company thus has not formally announced that it will not comply with its contract, but rather has resorted to delaying maneuvers in order to avoid having to pay a financial penalty. As part of its stalling tactics, FB Design continues to allow a few Iranian technicians to visit its Italian facilities. However, the company limits their activity, inhibiting their access to significant technology, according to de Mohr.

[1](#)5. (S) To further stall delivery, for example, FB Design has asked its Iranian clients to postpone the terms of an existing letter of credit under which it would be obliged to proceed with the export of boats, de Mohr told us. Despite

its efforts to maintain the semblance of open channels with the Iranians, the company remains concerned that its clients may seek to legally enforce its contract to finish and deliver the vessels, exposing FB Design to breach of contract and financial penalties.

#### Italian Legal Authority to Control Fast Boat Exports

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16. (S) Picking up on ref B points regarding the GOI's ability to use "catch-all" provisions to formally halt shipment of fast boats and boat molds to Iran, de Mohr went into further detail on the limits of GOI legal authority than he has in the past. De Mohr stated that "catch-all" authority could be invoked for an export only if it could be established that the item might reasonably be diverted for military use to further WMD proliferation. Absent the WMD connection, "catch-all" could not be used to stop delivery simply because the end-user was of a military nature.

17. (S) De Mohr added that the EU's (and Italy's) so-called "catch-more" provision could subject an export to licensing if the item could be the object of diversion towards conventional military use, but this provision would apply only if the end-user is in a country subject to an embargo by the UNSC, the OSCE, or the EU (which is not the case for Iran). "Catch-more," de Mohr continued, could also be invoked by an EU member for exports with conventional military significance to a country that has been formally criticized by the UNCHR for human rights abuses - which was the case for Iran until last year.

18. (S) Lastly, de Mohr raised an additional provision of EU (and Italian) dual use export control law that provides any EU member state the opportunity add any item to national control lists based on a "general public interest" determination. However, taking this step would require that EU country to control the item "universally," i.e. to all destinations. This was a step that de Mohr could not foresee Italy taking in the case of patrol boats. Nevertheless, he said that the spirit of this "general public interest" provision would continue to permeate the GOI's efforts to impede exports, on an informal basis, to regions of particular tension.

19. (S) De Mohr noted that the ongoing assessment exercise within the Wassenaar Arrangement has a task force considering counter-terrorism proposals, which could perhaps take a closer look at the potential threat by fast boats. In theory, categories of items of potential terrorist use could be established, and could include patrol boats. De Mohr noted that controlling such a common vessel would prove difficult, however, and would likely impose a significant burden on the global motorboat industry.

#### DCM's Meeting with MFA SecGen Baldocci

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10. (S) DCM took advantage of a September 2 meeting with Secretary General Baldocci to emphasize the importance we

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place on de Mohr's latest assurances and the need to ensure that the arrangement sticks. DCM also asked the GOI to guard against technology transfer to Iran through the visits by Iranian technicians to FB Design. Baldocci said he would convey our message directly to Foreign Minister Frattini.

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